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BEFORE THE ARIZONA CORPORATION COMMISSION

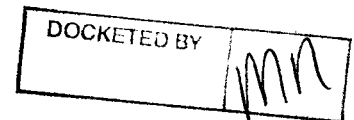
COMMISSIONERS

MIKE GLEASON, Chairman
 WILLIAM A. MUNDELL
 JEFF HATCH-MILLER
 KRISTIN K. MAYES
 GARY PIERCE

2008 MAY 12 P 1:39

Arizona Corporation Commission
DOCKETED

MAY 12 2008



IN THE MATTER OF THE APPLICATION OF)
 DUNCAN RURAL SERVICES CORPORATION)
 FOR A RATE INCREASE)

DOCKET NO. G-02528-05-0687

IN THE MATTER OF THE APPLICATION OF)
 DUNCAN RURAL SERVICES CORPORATION)
 FOR APPROVAL OF A LOAN IN THE)
 AMOUNT OF \$400,000)

DOCKET NO. G-02528-03-0205

FINAL REPORT ON
 CAPITALIZATION

Duncan Rural Services Corporation ("DRSC") hereby respectfully submits to the Arizona Corporation Commission (the "Commission") its final report on its capitalization and equity level in compliance with Decision No. 68599 (March 23, 2006) as explained further below.

I. THE DRSC REPORT.

Decision No. 68599 requires DRSC by May 15 of each year until it reaches a capital structure of at least 30 percent equity to file a report indicating the breakdown of the components of its most recent year-end capitalization, an explanation of why the five percent increase or more in its year-end 2005 equity level was not met and a projection of the equity balance in the next year and a description of the factors that may prevent DRSC from achieving the five percent equity goal. Finally, Decision 68599 requires DRSC to file for a rate increase if it is unable to increase its equity by five percent annually over three years or seek a waiver of such requirement.

1 Concerning DRSC's most recent year-end capitalization, DRSC has attached a Summary
2 Cost of Capital ("Schedule D") to this Report. DRSC's Schedule D shows that DRSC did not
3 achieve an increase in its equity percentage of at least the 5% as required by Decision No. 68599.
4 According to Schedule D, DRSC's equity percentage decreased by 2.26 percent from the
5 December 31, 2006 equity percentage of a negative 4.66 to an equity percentage of negative 6.92
6 percent as of December 31, 2007.
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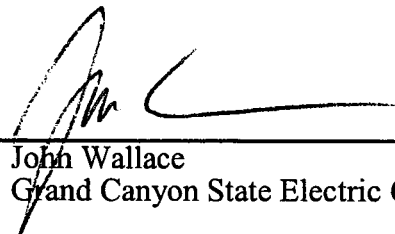
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9 On November 15, 2006, DRSC and Duncan Valley Electric Cooperative, Inc. ("DVEC")
10 filed an application to transfer DRSC's assets, certain liabilities and Certificate of Convenience
11 and Necessity to a Gas Division of DVEC ("Gas Division") (Docket Nos. G-02528A-06-0729
12 and E-01703A-06-0729). As a part of this application, DRSC would be dissolved and no longer
13 exist as a legal entity and DRSC's assets, certain liabilities and Certificate of Convenience and
14 Necessity would be transferred to a Gas Division of DVEC. In addition, DRSC's inter-company
15 debt which was owed to DVEC would be eliminated.
16

17
18 On June 28, 2007, the Arizona Corporation Commission ("Commission") issued Decision
19 No. 69679 in these docket numbers. This Decision approved the dissolution of DRSC and the
20 transfer DRSC's assets, certain liabilities and Certificate of Convenience and Necessity to a Gas
21 Division of DVEC and the elimination of the inter-company debt owed by DRSC to DVEC. This
22 transfer was completed on January 1, 2008.
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1 Decision No. 68599 states that DRSC must file this report on capitalization until DRSC's
2 equity ratio reaches 30 percent. As of January 31, 2008, the elimination of the inter-company
3 debt and the consolidated capitalization of DVEC and the capitalization of the newly formed Gas
4 Division have resulted in an Gas Division equity ratio of 100 percent as shown on DRSC's
5 Exhibit D and the attached, unaudited Rural Utilities Services Form 7, Part C. Balance Sheet for
6 January 31, 2008. The Gas Division anticipates that its equity ratio will range from
7 approximately 90 to 100 percent for many years into the future.
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9
10 In conclusion, DRSC (now known as the Gas Division of DVEC) hereby gives notice to
11 the Commission that this is its final report on capitalization that will be filed in compliance with
12 Decision No. 68599.
13

14
15
16 RESPECTFULLY SUBMITTED this 11th day of May 2008.

17
18
19 By 
20 John Wallace
Grand Canyon State Electric Cooperative, Inc.
21

22 Original and thirteen (13) copies of
23 Duncan Rural Services Corporation Application
filed this 11th day of May, 2008 with:

24 DOCKET CONTROL
25 Arizona Corporation Commission
1200 West Washington Street
26 Phoenix, Arizona 85007

SUMMARY COST OF CAPITAL
REPORT ON CAPITALIZATION IN COMPLIANCE WITH DECISION NO. 68599

SCHEDULE D

	Balance as of		Balance as of		Balance as of		Balance as of		DVEC Gas Division	
	12/31/2005	Percent	12/31/2006	Percent	12/31/2007	Percent	12/31/2008	Percent	1/31/2008	Percent
Long Term Debt*	\$ 486,325		\$ 945,358		\$ 945,358		\$ -			
Total Long Term Debt	\$ 486,325	180.74%	\$ 945,358	104.66%	\$ 945,358	106.92%	\$ -	0.00%		
Total Margins & Equities**	\$ (217,244)		\$ (213,637)		\$ (232,722)		\$ 882,051			
Plus Debt disapproved in Decision No. 68599	\$ -		\$ 171,516		\$ 171,516		\$ -			
Total Margins & Equities Adjusted	\$ (217,244)	-80.74%	\$ (42,121)	-4.66%	\$ (61,206)	-6.92%	\$ 882,051	100.00%		
Total Capital	\$ 269,081		\$ 903,237		\$ 884,152		\$ 882,051			
Total Cost of Capital										

*RUS Form 7, Line 34

** RUS Form 7, Line 32

Increase (Decrease) in Equity Percentage as of December 31 76.07% -2.26% 106.92%

FINANCIAL AND STATISTICAL REPORT		DUNCAN VALLEY ELECTRIC COOPERATIVE GAS DIVISION	
		MONTH ENDING January 31, 2008	
PART C. BALANCE SHEET			
ASSETS AND OTHER DEBITS		LIABILITIES AND OTHER CREDITS	
1. Total Utility Plant in Service	<u>1,457,305</u>	26. Equity Position - Divisional Balancing	<u>1,076,472</u>
2. Construction Work in Progress	<u>5,078</u>	27. Patronage Capital	
3. Total Utility Plant (1 + 2)	<u>1,462,383</u>	28. Operating Margins - Prior Years	<u>(237,722)</u>
4. Accum. Provision for Depreciation & Amort	<u>738,633</u>	29. Operating Margins - Current Year	<u>43,301</u>
5. Net Utility Plant (3 - 4)	<u>723,750</u>	30. Non Operating Margins	
6. Nonutility Property - Net		31. Other Margins and Equities	
7. Invest in Assoc Org - Patronage Capital		32. Total Margins & Equities (26 thru 31)	<u>882,051</u>
8. Invest in Assoc Org - Other		33a. Long-Term Debt-DVEC 25 Year	
9. Invest in Assoc Org - Nongeneral Funds		33b. Long-Term Debt-DVEC 35 Year	
10. Other Investments		33c. Long-Term Debt-DVEC 25 Year	
11. Special Funds		33d. Long-Term Debt-DVEC 25 Year	
12. Total Other Property & Investments (6 thru 11)	<u>0</u>	34. Total Long-Term Debt	<u>0</u>
13. Cash - General Funds	<u>44,014</u>	35. Notes Payable	
14. Cash - Construction Funds - Trustee		36. Accounts Payable	<u>59,623</u>
15. Special Deposits		37. Consumers Deposits	<u>20,485</u>
16. Temporary Investments		38. Other Current & Accrued Liabilities	<u>32,508</u>
17. Notes Receivable - Net		39. Total Current & Accrued Liabilities (36 thru 39)	<u>112,616</u>
18. Accounts Receivable - Net Sales	<u>154,940</u>	40. Deferred Credits	
19. Accounts Receivable - Net Other		41. Miscellaneous Operating Reserves	
20. Materials & Supplies	<u>25,310</u>	42. Total Liabilities & Other Credits (32 + 34 + 39 thru 41)	<u>994,667</u>
21. Prepayments	<u>12,263</u>		
22. Other Current & Accrued Assets			
23. Total Current & Accrued Assets (13 thru 22)	<u>236,527</u>		
24. Deferred Debits	<u>34,390</u>		
25. Total Assets & Other Debits (5+12+23+24)	<u>994,667</u>		
PART D. NOTES TO FINANCIAL STATEMENTS			
THE SPACE BELOW IS PROVIDED FOR IMPORTANT NOTES REGARDING THE FINANCIAL STATEMENT CONTAINED IN THIS REPORT. <i>(IF ADDITIONAL SPACE IS NEEDED, USE SEPARATE SHEET.)</i>			